

## **MARKET POSITIONING OF VARIETIES IN WORLD TRADE: IS LATIN AMERICA LOSING OUT ON ASIA?**

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### **NON-TECHNICAL SUMMARY**

There is increasing empirical evidence that trade takes place within products, i.e. across varieties of vertically-differentiated products (qualities), rather than across products or industries. These new findings on trade specialisation and competition have important consequences for the analysis of the transformation and diversification of Latin American exports. The classical view on the upgrading and incorporation of value added in exports was that countries should move away from natural-resource based and low-tech products towards medium and high-tech goods. Under the new paradigm, specialisation can also take place within different qualities of the same product (even resource-based ones) in a process of vertical differentiation. The analysis of trade competition among countries also changes. The basket of products exported by Brazil and Mexico is increasingly similar to that of its Asian competitors. However, if the varieties exported by Latin America differ from the ones exported by the latter (as suggested by their very different prices), the risk of direct competition are substantially reduced.

This paper examines trends in export specialisation in price and quality segments of Latin America and the Caribbean (LAC) and that of its Asian competitors. As in Fontagné, Gaulier and Zignago (2008), we consider three price (or quality) segments to assess export performance. This analysis is done using the BACI database, which is specifically designed for this purpose as it provides harmonised bilateral unit values for most countries in the world at the most disaggregated product-level (5,000 products). We also consider Lall's (2000) technology-

content classification, which has been used frequently to study the specialisation developing countries.

Our findings suggest that LAC is losing out on China, notably in the low-quality segment of low-tech products. However, LAC has succeeded to retain their overall market shares, by slightly upgrading the quality and technology content of its exports. Even if this result is largely driven by the performance of Mexico, Brazil and Central America also contribute to this increased sophistication of LAC exports.

The estimations of the similarity in export structures confirm that varieties exported by the two continents are very different. Moreover, prices of LAC exports are much higher than those of China, but relatively similar to the ones of other Asian exporters.

Finally, econometric tests on the determinants of export unit values of Latin American and Asian products confirm that the type of global competition differs between the two regions: prices play a bigger role in the case of Asian exports, whereas Latin America competes more on quality in world markets.

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